

THE HONORABLE BRIAN D. LYNCH
Chapter 11
Date: Tuesday, May 8, 2018
Time: 10:00 a.m.
Response Date: Tuesday, May 1, 2018
Location: Tacoma, Courtroom I

UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF WASHINGTON
AT TACOMA

In Re	)	No. 18-41324-BDL
)	
PUGLIA ENGINEERING, INC.,	)	DECLARATION OF JONATHAN
	)	ENSCH IN SUPPORT OF
Debtor.	)	WASHINGTON FEDERAL'S
	)	RESPONSE IN SUPPORT OF
	)	EMERGENCY MOTION RE
	)	EXISTING CASH MANAGEMENT
	)	SYSTEM AND PREPETITION
	)	BUSINESS BANKING ACCOUNTS
	)	AND CHECKS

The undersigned makes the following Declaration under penalty of perjury as permitted by RCW 9A.72.085:

1. I am a Vice President of Washington Federal, National Association ("Washington Federal"), a secured creditor of the debtor-in-possession, Puglia Engineering, Inc. ("Debtor"), in the above-captioned action. I am competent to make this Declaration, and I do so on the basis of personal knowledge or, where appropriate, the business records of Washington Federal.

2. Washington Federal is a reputable financial institution that has been in existence for 100 years. Attached hereto as Exhibit A and incorporated herein by reference is a true and correct copy of an excerpt from the 2017 Annual Report for Washington Federal, Inc. and its

DECLARATION OF JONATHAN ENSCH IN SUPPORT OF
WASHINGTON FEDERAL'S RESPONSE - 1

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SEATTLE, WA 98111-9402
206.223.7000 FAX: 206.223.7107

114934.0305/7284431.1

1 consolidated wholly owned subsidiary, Washington Federal, reflecting over \$15 billion in
2 assets and a Tier 1 leverage ratio of 11.27%.

3 3. Debtor maintains two checking accounts at Washington Federal (the
4 “**Accounts**”), which are insured by the Federal Deposit Insurance Corporation (FDIC) up to
5 \$250,000.

6 4. Washington Federal will collateralize that portion of Debtor’s Accounts in
7 excess of FDIC insurance limits pursuant to its Business Collateralized Account product,
8 which secures such deposit accounts with certain Federal National Mortgage Association
9 (FNMA) and Federal Home Loan Mortgage Corp. (FHLMC) stock (collectively, the “**Stock**
10 **Collateral**”).

11 5. Washington Federal estimates that the secured deposits at Washington Federal
12 are aggregately collateralized by the Stock Collateral at 200%.

13 I declare under penalty of perjury under the laws of the State of Washington that the
14 foregoing is true and correct.

15 EXECUTED at Bellingham, Washington this 1st day of May, 2018.

16
17 /s/Jonathan Enschr
Jonathan Enschr

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DECLARATION OF JONATHAN ENSCH IN SUPPORT OF
WASHINGTON FEDERAL’S RESPONSE - 2

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Exhibit “A”

Excerpt from Annual Report

Washington Federal.
invested here.

**Washington Federal, Inc.
Annual Report 2017.**

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
2017 ANNUAL REPORT

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BUSINESS DESCRIPTION

Washington Federal, Inc. is a bank holding company headquartered in Seattle, Washington, that conducts its operations through Washington Federal, National Association (“Bank”), a federally chartered national bank subsidiary. In this annual report, “we,” “our,” “Company” and “Washington Federal” refer to Washington Federal, Inc. and its consolidated wholly owned subsidiary, the Bank.

The Company had its origins on April 24, 1917 in Ballard, Washington, and just celebrated its *First 100 Years* in business. Washington Federal is engaged primarily in providing lending, depository, insurance and other banking services to consumers, mid-sized to large businesses, and owners and developers of commercial real estate. On November 9, 1982 the Company listed and began trading on the NASDAQ. Profitable operations have been recorded every year since and the Company is often leading the industry in important measures of financial performance such as efficiency and capital strength. As of September 30, 2017, the stock traded at 91 times its original 1982 offering price, has paid 138 consecutive quarterly cash dividends and, with cash dividends reinvested, has returned 12,938% total shareholder return to those who invested 35 years ago.

Over the years, the Company has expanded to serve banking clients in eight western states. While much has changed since its founding, one constant has been the commitment to doing business with integrity and treating employees, clients and investors fairly. Our tagline “invested here” is intended to reflect our people-first values and express the Company’s dedication to helping our neighborhoods and communities thrive.

FINANCIAL HIGHLIGHTS

As of and for the year end September 30,	2017	2016	% Change
	(In thousands, except per share data)		
Assets	\$ 15,253,580	\$14,888,063	+2.5%
Cash and cash equivalents	313,070	450,368	(30.5)
Investment securities	423,521	849,983	(50.2)
Loans receivable, net	10,882,622	9,910,920	+9.8
Mortgage-backed securities	2,489,544	2,490,510	—
Customer accounts	10,835,008	10,600,852	+2.2
FHLB advances and other borrowings	2,225,000	2,080,000	+7.0
Stockholders’ equity	2,005,688	1,975,731	+1.5
Net income	173,532	164,049	+5.8
Diluted earnings per share	1.94	1.78	+9.0
Dividends per share	0.84	0.55	+52.7
Stockholders’ equity per share	23.00	22.03	+4.4
Shares outstanding	87,193	89,681	(2.8)
Return on average stockholders’ equity	8.64%	8.33%	+3.7
Return on average assets	1.16	1.12	3.6
Efficiency ratio (1)	47.82	50.80	(5.9)

(1) Calculated as total operating costs divided by net interest income, plus other income (excluding non-operating gains)

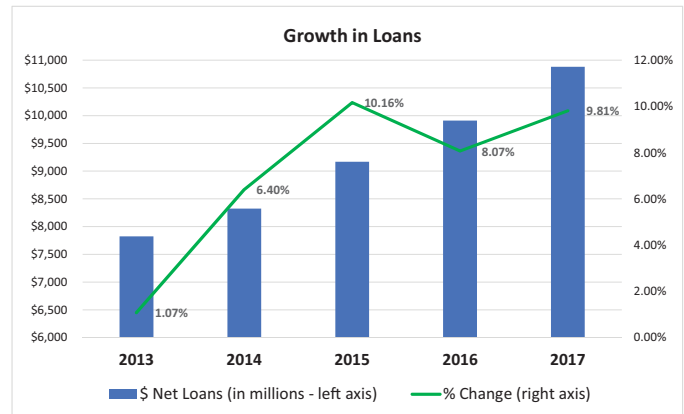
ANNUAL REPORT 2017

Fellow Shareholder,

It is a privilege to report the results of your Company's 100th year of operations. Fiscal 2017 was a record year for Washington Federal on several fronts. Net income for the year was a record \$173,532,000, a meaningful increase over the \$164,049,000 generated last year. Earnings per share, perhaps the most important measure of performance for shareholders, increased to \$1.94 per share, 9.0% higher than 2016. And, after many years during which financial stocks had underperformed the market, Washington Federal's shareholders were rewarded in 2017 with a 29% total return.

One of the reasons for optimism about the Company's future prospects is that the growth in earnings was driven by fundamental improvements in its balance sheet. Most notably, loan growth of \$972 million, or 9.8%, was a key driver and marks the fourth consecutive year of loan growth in excess of 6%.

In an economy growing at a rate of just above 2%, how is it that Washington Federal is able to grow its loans at a significantly faster pace? The answer is relatively simple: Our markets are growing and business leaders are recognizing the capabilities Washington Federal has to offer. We are the beneficiaries of several generations of employees committed to doing what is right for our clients. Our reputation as a trusted business partner is growing. Over the last 20 years, we have expanded our commercial lending capabilities, which now account for 67% of current-year loan production and 43% of net loans outstanding. Our position as a mid-sized regional bank makes us capable of meeting the credit needs of larger commercial clients while remaining nimble enough to be more responsive to clients than the trillion-dollar banks.



We have the good fortune of operating in some of the most robust regional economies in the United States. The consistent themes we see in these growing markets are above-average job growth, low unemployment rates, vibrant technology sectors, educated workforces and appreciating real estate values. How long these good times will last is something we debate regularly. We cannot predict what will cause the next downturn in the economy or when it will occur, but we carefully watch monetary and fiscal policies, geopolitical risk and cybersecurity events. Banks typically fail because of undue credit risk, so we are consistently mindful of our client selection and tried-and-true concepts such as meaningful borrower equity and the diversification of cash flows for loan repayments.

Funding for loan growth has come from a combination of sources: shrinking our investment portfolio, increasing wholesale borrowings and growing deposits. Since our acquisition four years ago of nearly \$2 billion of deposits, our primary focus has been on growing loans to get those funds deployed in higher yielding assets. This year, for the first time since 2013, our loan-to-deposit ratio crossed over 100%. Another way to look at it is that our deposits are 100% utilized to fund loans, which is a good thing. Barring an unforeseen hiccup in the economy, we expect loan demand in the next few years to continue to be robust. To fund this expected growth, we need to grow deposits organically, and so we are investing in improving our digital delivery for both consumers and businesses. At year end, only 11% of our clients' transactions occurred at a physical branch, while 89% of transactions happened through mobile banking, online banking, ATMs or automated processes. Increasingly, our clients' perception of us is what they see on the screen. We need our digital channels to be secure, reliable, and intuitive. We are committed to improving in all these categories and are implementing strategies to make banking with Washington Federal even easier and more convenient on a daily basis.

During 2017, we put into action a new value-added checking account product called "Green Checking." Green Checking offers the normal benefits that a customer expects from a checking account, such as low cost ATMs, EMV-chip debit cards, check writing and electronic statements. Moreover, we have also added features that differentiate us from other institutions while providing tangible customer value. For a small monthly fee, Green Checking provides identity theft monitoring and resolution services, discounts on travel and entertainment, plus mobile phone damage insurance. The early returns are positive for both clients and our bank.

ANNUAL REPORT 2017 (CONTINUED)

Capital has always been a key ingredient to the formula of success at Washington Federal. We ended the year in a very strong capital position with the Bank's Tier 1 Leverage Ratio at 11.27%. Federal banking regulations require a ratio of 5.00% or greater to be considered "well capitalized." Often, we hear from analysts and potential investors that we could easily improve our return on equity and thus boost the stock price by simply reducing the amount of equity. While correct mathematically, from our perspective this move would be imprudent because no one can predict exactly how much capital we will need in the next down cycle. Certainly, we have run all the "stress tests" prescribed by regulation as well as our internal stress scenarios. However, we know from experience that models can be precisely wrong because one cannot reliably predict the future. Our perspective is if we can run the business in a way that provides a reasonable return to shareholders while maintaining a strong capital position, then we will have a margin of error to mitigate both current and future risks.

But we also recognize that too much capital can lead to excessive risk taking, so there is an appropriate balance to be found. Our philosophy is generally to deploy our retained earnings through organic growth. If that growth is not available, we seek to return earnings back to shareholders. In 2017, we returned 100% of earnings to shareholders in the form of cash dividends and share repurchases. In the last five years, Washington Federal has repurchased 24.3 million shares at a weighted average price of \$22.04. We look to be opportunistic with the share repurchase program, being more aggressive when the stock price is down and holding back when the stock moves up. This year, for the first time in our history we also declared a special cash dividend of \$0.25 per share on top of our annual cash dividend of \$0.60 per share. Cash dividends continue to be important to many of our shareholders and also serve as a governor on growth, which has contributed nicely to the disciplined expansion the Company has experienced over its first 100 years.

One of the reasons I have chosen to build my career at Washington Federal for the past 17 years is the authenticity of the people who work here. Our culture is strong and wholesome, where hard work and results are recognized and rewarded. When faced with a difficult situation, we try to ask the question, "What is best for the bank in the long-run?" We work as a team, believing that together we can accomplish more than we can individually. In today's age of mobility and choice, I believe our employees have remained with the Bank because our culture is engaging and encourages each of us to be kind to both clients and fellow employees. Our values of integrity, teamwork, ownership, service and simplicity govern how we live and work. In a mature industry such as banking, there are few competitive advantages. Increasingly, our employees "are" the Washington Federal brand and provide our clients with the "why" they bank with us. We aspire to be a relationship bank. Having highly engaged and motivated employees drives the record financial results described above.

I wish to acknowledge the contributions of an individual who has served us as shareholders tirelessly over the last 19 years, our Executive Chairman Roy M. Whitehead. I have had the good fortune of working side-by-side with Roy for the majority of my professional career and can honestly say that I have never known a person of such noble character, impeccable integrity and uncanny business acumen. Under Roy's leadership, this bank has survived the greatest economic shock since the Great Depression and has thrived to the benefit of shareholders, clients, and employees. His hand is steady at the helm, leading Washington Federal forward. His belief is that if you treat people with respect and provide good value, the market will come to you. This continues to be a guiding principle. One of his favorite sayings is that "we can stand to lose a little money, but we cannot afford to lose our good reputation." Perhaps his greatest legacy is the reputation that Washington Federal enjoys today in our communities. We pride ourselves in the consistency and predictability of Washington Federal. Our belief is that investors and employees anticipated this management transition and, to this point, it has been a smooth transition.

During the year, we welcomed three new members to our Executive Management Committee, which manages the day-to-day operations of the Bank. In October of last year, Cathy Cooper was promoted to run our retail banking activities. Cathy has been with Washington Federal for 29 years and has deep experience in consumer banking, marketing and digital channels. Robert Peters was promoted in December last year to head our commercial banking operations. Bob has been with us now for three years after more than 25 years at a large commercial bank, where he often dealt with the region's most sophisticated clients. In April, Kim Robison was promoted to manage our operations functions. She has been with Washington Federal for nine years and her organizational skills and ability to improve our processes make her an outstanding addition to our management team.

I conclude by saying that it is an honor to serve as only the sixth President of Washington Federal. What has been created here over the last 100 years is much bigger than any one individual. The entire management team and I consider ourselves stewards of an asset that has been entrusted to our care. As a Boy Scout growing up, I was taught the principle of leaving your campsite in better condition than you found it. We take this same approach toward our responsibilities at Washington Federal.

Thank you to the Board of Directors and my colleagues who serve our clients every day. Both have been immensely supportive of our new management team, as we have gone through this once-in-a-generation transition. I challenge all Washington Federal employees to love what they do, then make a difference. I have been heartened by the numerous stories of the employees of Washington Federal doing the extraordinary to positively impact others. I am bullish on our future prospects in large part because of our great people. We are pleased with the financial results of the past year, but we know we can do even better.

I look forward to seeing you at the Motif Hotel in downtown Seattle on January 24, 2018 at 2 p.m. for the Annual Meeting of Shareholders. In the meantime, we invite you to help our business grow and prosper by referring your friends, neighbors, and the businesses you associate with to Washington Federal for all their banking needs. We look forward to serving you in the coming new year.

Sincerely,



Brent J. Beardall
President and Chief Executive Officer



From left to right: Bob Peters, Executive Vice President Commercial Banking; Vince Beatty, Executive Vice President & Chief Financial Officer; Kim Robison, Senior Vice President Operations; Cathy Cooper, Executive Vice President Retail Banking; Brent Beardall, President & Chief Executive Officer; and Mark Schoonover, Executive Vice President & Chief Credit Officer